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**Groups of countries in special situations: follow-up to the Fourth****United Nations conference on the Least Developed Countries****Implementation, effectiveness and added value of smooth  
transition measures and graduation support****Report of the Secretary-General***Summary*

The present report is submitted pursuant to resolution 70/216, by which the General Assembly requested the Secretary-General to submit to the Assembly at its seventy-third session a progress report on the implementation, effectiveness and added value of smooth transition measures, including initiatives undertaken by the United Nations system to support countries during their graduation from the least developed country category. Further, in its resolution 72/231, the Assembly requested that both graduating and recently graduated countries be covered in the present report, as well as the ways that graduated countries can be supported in their development path.

\* A/73/150.



## I. Introduction

1. The overarching goal of the Istanbul Programme of Action for the Least Developed Countries for the Decade 2011–2020 is for least developed countries to overcome their structural challenges to eradicate poverty, achieve internationally agreed development goals and enable graduation from the least developed country category. Specifically, the Programme of Action set an ambitious objective of enabling half of the 48 countries that were, at the time, in the category of least developed country to meet the criteria for graduation by 2020.
2. Recent developments with respect to graduation from the least developed country category are encouraging and indicate that national and global efforts for poverty eradication and sustainable development are bearing fruit. Graduation from the least developed country category can be seen as a milestone in the ongoing development process of the countries concerned. It is the result of many factors, including the successful implementation of various national and global strategies and partnerships.
3. The most recent triennial review of the least developed country category by the Committee for Development Policy took place in March 2018.<sup>1</sup> It was a historic occasion with a total of 12 least developed countries meeting the criteria. Four countries — Bhutan, Kiribati, Sao Tome and Principe and Solomon Islands — were recommended for graduation from the least developed country list, which is significant, particularly considering that over the past 47 years, only five countries have graduated and two are scheduled to graduate. In addition, Bangladesh, Lao People's Democratic Republic and Myanmar met the graduation criteria for the first time and will be considered for graduation in 2021.
4. While graduation marks an outstanding achievement that should serve as a solid foundation for further inclusive and sustainable development, as expressed in the 2030 Agenda for Sustainable Development, it also entails challenges, as the country may lose least-developed-country-specific benefits and favourable arrangements. However, the impact of the loss of such benefits depends on how effectively the country has been using the benefits before graduation. Furthermore, most graduated countries will remain vulnerable, especially to the impacts of climate change, natural disasters and other shocks and crises, which poses serious challenges to sustaining their growth and development trajectory.
5. A smooth transition strategy can be a vital tool for ensuring that graduating countries are eased into a path of sustainable graduation. This includes mapping out any potential loss of benefits, identifying effective responses and adjusting institutional and legal frameworks to comply with international obligations. While the graduated countries have the primary responsibility to continue on a path of sustainable development, strengthened global partnerships are crucial, and development partners have a critical role to play in supporting sustainable graduation and smooth transition.
6. The present report analyses developments in both graduating and recently graduated countries and how these countries can be supported on their development path. The report also tracks progress on the implementation, effectiveness and added value of smooth transition measures, which are the extension of least-developed-country-specific support for a limited time after actual graduation, including initiatives undertaken by the United Nations system to support countries during their graduation from the least developed country category.

<sup>1</sup> See *Official Records of the Economic and Social Council, 2018, Supplement No. 13 (E/2018/33)*.

## II. Progress towards graduation

### A. A brief history of graduation from the least developed country category

7. The category of least developed countries was officially established in 1971 by the General Assembly with a view to attracting special international support for the most vulnerable and disadvantaged members of the United Nations family. There are currently 47 countries<sup>2</sup> in the least developed category: 33 in Africa; 13 in Asia and the Pacific; and 1 in Latin America.

8. The Istanbul Programme of Action sets an ambitious objective of enabling half of the least developed countries to meet the criteria for graduation by 2020, making it the first global programme of action for the least developed countries to contain a chapter on graduation and smooth transition. In the political declaration of the Comprehensive High-level Midterm Review of the Implementation of the Istanbul Programme of Action,<sup>3</sup> held in 2016, participants recognized and welcomed the progress made towards meeting the criteria for graduation by 2020, while expressing some concern about limited graduation thus far. They also note that, based on current trends, concerted and revitalized efforts will be required. Particular attention should be given to the smooth transition of countries graduating from least developed country status, consistent with their transition strategy and taking into account each country's particular development situation.

9. As the decade 2011–2020 draws to an end, the number of least developed countries that have already met the criteria for graduation has increased significantly. To date, only five countries have graduated from the least developed country category: Botswana (1994); Cabo Verde (2007); Maldives (2011); Samoa (2014); and Equatorial Guinea (2017). Vanuatu and Angola are scheduled to graduate in 2020 and 2021 respectively. The graduation of Vanuatu has been postponed following a deferral due to the devastation caused by a tropical cyclone. Angola was also granted an additional period of two years before the start of the three-year preparatory period leading to graduation, as the country's commodity-dependent economy continued to be highly vulnerable to price fluctuations. Tuvalu was recommended for graduation by the Committee for Development Policy in 2012. However, the Economic and Social Council deferred a decision on its graduation until 2018. Kiribati met the graduation thresholds for the second time in 2015. A recommendation on the graduation of Kiribati was deferred by the Committee to the 2018 triennial review, when the Committee recommended the country for graduation, while noting its extreme vulnerability to the impacts of climate change and other environmental shocks.

10. As a growing number of least developed countries are meeting the criteria for graduation, it is important for the international community to pay increased attention to graduation and smooth transition processes, thus ensuring sustainable development and the irreversibility of graduation. This is in line with the 2030 Agenda for Sustainable Development targeting all dimensions of sustainable development with a special focus on the least developed countries under the theme of "Leaving no one behind".

<sup>2</sup> Available from: [https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/ldc\\_list.pdf](https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/ldc_list.pdf).

<sup>3</sup> Report on the Comprehensive High-level Midterm Review of the Implementation of the Istanbul Programme of Action for the Least Developed Countries for the Decade 2011–2020 (A/CONF.228/3).

## B. Overview of the graduation criteria and process

11. The identification of least developed countries is based on three criteria: per capita gross national income (GNI), human assets and economic vulnerability to external shocks.<sup>4</sup> The latter two are measured by two indices of structural impediments, namely the human assets index and the economic vulnerability index. The same three criteria are used for determining graduation from the least developed country category:

- **Income criterion:** based on the most recent available three-year average of GNI per capita as a single indicator for the income criterion. It is expressed in United States dollars, using the World Bank Atlas method to convert national currencies;
- **Human assets index:** based on indicators of: (a) health — percentage of population undernourished; (b) health — under-five mortality rate; (c) health — maternal mortality rate; (d) education — gross secondary school enrolment ratio; and (e) adult literacy rate;
- **Economic vulnerability index:** based on indicators of (a) population size; (b) remoteness; (c) merchandise export concentration; (d) share of agriculture, hunting, forestry and fishing; (e) share of population in low-elevation coastal zones; (f) instability of exports of goods and services; (g) victims of natural disasters; and (h) instability of agricultural production.

Table 1  
Graduation thresholds, 2018 triennial review<sup>5</sup>

| <i>Income (per capita)</i> | <i>Human assets index</i> | <i>Economic vulnerability index</i> |
|----------------------------|---------------------------|-------------------------------------|
| GNI: \$1 230 or above      | 66 or above               | 32 or below                         |
| Income: \$2 460 or above   |                           |                                     |

12. The Committee for Development Policy is mandated to review the least developed country category on the basis of the above criteria and application procedures and to monitor the progress of graduated least developed countries. The thresholds for graduation determined by the Committee are more stringent than for inclusion.

13. To reach eligibility for graduation, a country must reach threshold levels for graduation in two consecutive triennial reviews for at least two of the aforementioned three criteria, or its GNI per capita must exceed at least twice the threshold level (\$2,460 at the 2018 triennial review), and the likelihood that the level of its per capita GNI is sustainable must be deemed high.

14. After a country has become eligible for graduation for the first time, an ex ante impact assessment and a vulnerability profile are produced by the Department of Economic and Social Affairs and the United Nations Conference on Trade and Development (UNCTAD) respectively, and submitted to the Committee as input for its deliberations at the next triennial review. If the country meets the criteria for the second time, the Committee for Development Policy may recommend the country for graduation. The process is not automatic and takes into account the ex ante impact assessment, the vulnerability profile and the views of the country.

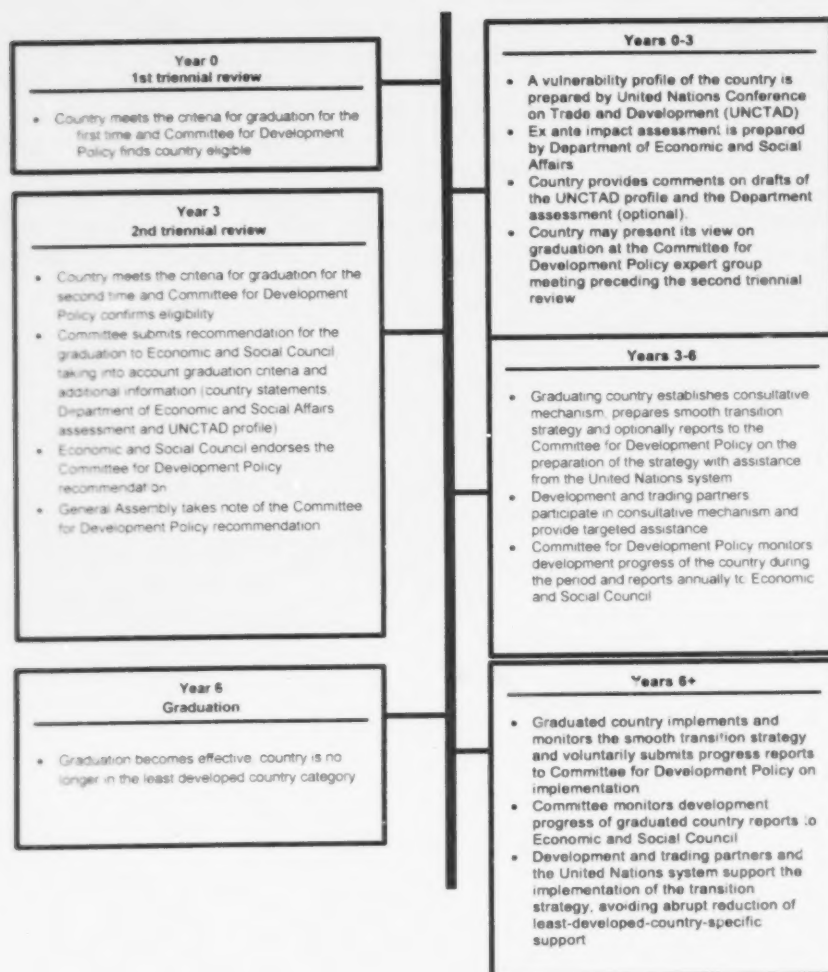
<sup>4</sup> For details see <https://www.un.org/development/desa/dpad/least-developed-country-category/ldc-criteria.html>.

<sup>5</sup> Ibid.

15. A country graduates from the least developed country category three years after the General Assembly takes note of the Economic and Social Council's endorsement of the recommendation of the Committee for Development Policy. However, under exceptional circumstances, the Assembly can grant the country a longer preparatory period. This applied to the past three resolutions on graduation (Angola, Equatorial Guinea and Vanuatu). In addition, the Assembly may extend the preparatory period, for example in case of major natural disasters (as in the case of Maldives, Samoa and Vanuatu). During this preparatory period, the country remains on the list of least developed countries. Smooth transition refers to the period after the effective graduation from the least developed country category and can vary in length. The strategy to be prepared for this period is aimed at ensuring that graduation does not disrupt the development progress of the country. The smooth transition strategy is prepared before graduation with the support of a consultative mechanism. However, there is no clear intergovernmental follow-up mechanism for its implementation. Figure 1 below describes the steps for graduation after a country meets the criteria for graduation for the first time.<sup>6</sup>

<sup>6</sup> See Handbook on the Least Developed Country Category: Inclusion, Graduation and Special Support Measures (United Nations publication, Sales No. E.15.II.A.1).

Figure 1  
Graduation process



### C. Countries on track for graduation

16. The 2018 triennial review of the list of least developed countries was a milestone in the history of the least developed country category, with an unprecedented number of countries meeting the graduation criteria.<sup>7</sup>

17. The countries that met the graduation criteria for the second time in 2018 were Bhutan, Nepal, Sao Tome and Principe, Solomon Islands and Timor-Leste. Kiribati met the criteria for the third consecutive time. The Committee for Development Policy recommended Bhutan, Kiribati, Sao Tome and Principe and Solomon Islands for graduation, whereas it deferred the decision on the graduation of Nepal and Timor-

<sup>7</sup>See *Official Records of the Economic and Social Council, 2018, Supplement No. 13 (E/2018/33)*.

Leste for the next review owing to concerns about the sustainability of their development progress.

18. Bangladesh, Lao People's Democratic Republic and Myanmar fulfilled the graduation criteria for the first time in 2018, with Bangladesh and Myanmar meeting all three graduation thresholds. They will be required to meet the criteria for a second time at the next triennial review, in 2021, to become eligible for graduation, which will then likely happen in 2024.

19. In addition to the countries meeting the thresholds in 2018, an increasing number of least developed countries are approaching the graduation thresholds. For example, Lesotho and Togo both met one criteria and came close to meeting another. In 2018, 17 countries met income criteria, compared with 14 that did so in 2015. As regards the human assets index, the number of countries meeting the threshold increased from 9 to 12 from 2015 to 2018. Progress has been slower with respect to the economic vulnerability index, which is currently met by only nine countries.

20. Also in the 2018 review, five countries met the income-only criteria. Three of them were among countries with the highest scores in the economic vulnerability index, signalling that despite graduation from the least developed country category, certain vulnerabilities will remain and require continued support.

#### **D. Charting a course towards least developed country graduation**

21. Least developed country graduation must be considered in the larger context of development. It is not only about meeting the graduation thresholds, but should be based on a long-term and holistic approach towards equitable and sustainable development, with full ownership and leadership of the process by the country in question. This approach would allow countries to graduate with momentum propelling them towards a sustainable development trajectory and achievement of the Sustainable Development Goals.

22. The key to graduation with momentum is the development of productive capacities, which will lead to structural transformation and economic growth, making the economies and societies in question more resilient to exogenous shocks. In expanding productive capacities for sustainable development, the need for integrated policies across the following five broad policy areas has been highlighted: (a) development governance; (b) social policy; (c) macroeconomic and financial policies; (d) industrial and sectoral policies; and (e) international support.<sup>8</sup>

23. Some common elements can be identified as key accelerators for establishing strong foundations for a continued structural transformation. These include focusing on rural transformation, which remains a key priority for many least developed countries. Enhanced science, technology and innovation capacities, access to energy and use of innovative finance instruments also play a key part in building stronger foundations for least developed countries, allowing such countries to move from lower- to higher-productivity sectors and activities, absorb and adapt innovative technologies and diversify their economic structures.<sup>9</sup> The Technology Bank for least developed countries will provide further support to such countries in this regard.

24. In addition, information and communications technology can address critical development challenges and is an important tool to speed up graduation processes. A

<sup>8</sup> *Expanding Productive Capacity: Lessons Learned from Graduating Least Developed Countries* (United Nations publication, Sales No. E.18.II.C.3).

<sup>9</sup> United Nations Conference on Trade and Development (UNCTAD), *Least Developed Countries Report*, 2016.

total of 9 of the 12 least developed countries that are in the graduation process have been identified as “high performers” in terms of Internet access, affordability and skills.<sup>10</sup>

25. There is no “one size fits all” path to graduation. Some countries that recently graduated or are on track for graduation have chosen the path characterized by the development of productive capacities, structural transformation and diversification of the economic structure, as in the case of two manufactures exporters (Bangladesh and Bhutan).<sup>11</sup>

26. However, different pathways also exist. Several of the countries on track for graduation are services exporters, which indicates the significant role that services exports play for progress towards graduation. For example, tourism was developed, particularly by the least developed countries that are also small island developing States, but also by Nepal. Similarly, fuel extraction has been an important driver for graduation in Angola, Equatorial Guinea and Timor-Leste, and the graduations of all three are based on the income-only criterion, indicating limited progress towards human assets and reducing vulnerability through diversification.<sup>12</sup>

### III. Preparing for graduation

27. After being recommended for graduation, a country enters a graduation preparation period, which normally takes three years. During this period, the country remains fully entitled to all benefits associated with the category and is recommended to establish a consultative mechanism to prepare a smooth transition strategy.

28. The purpose of the consultative mechanism is to bring together the main development and trading partners; to facilitate the preparation of the transition strategy and to identify the necessary actions. If requested by the graduating country, the United Nations resident coordinator and the United Nations country team should provide support to the consultative mechanism.<sup>13</sup> It is further recommended that other relevant consultative mechanisms operating in the country (for instance, under the auspices of the International Monetary Fund (IMF) and the World Bank) should incorporate the implications of graduation and smooth transition decisions in their activities in the country.<sup>14</sup>

29. The smooth transition strategy should include a set of specific and predictable measures to mitigate the potential impacts of withdrawal of least-developed-country-specific support measures. It should build on a country’s specific structural challenges and vulnerabilities as well as its strengths. The smooth transition strategy plays a key role in ensuring that countries will be able to fully adapt to the changing circumstances arising from the erosion of least-developed-country-specific support and to maintain their development trajectory with a view to achieving the Sustainable Development Goals by 2030. Therefore, the potential impacts of graduation and the steps to be taken must be analysed carefully, in cooperation with the development partners.

30. These measures have proven to be helpful in countries preparing for graduation. Cabo Verde, which graduated in 2007, established a consultative mechanism called a

<sup>10</sup> International Telecommunication Union, *Achieving Universal and Affordable Internet in the Least Developed Countries* (Geneva, 2018). Available from: <https://www.itu.int/en/ITU-D/LDCs/Pages/ICTs-for-SDGs-in-LDCs-Report.aspx>.

<sup>11</sup> UNCTAD, *Least Developed Countries Report*, 2016.

<sup>12</sup> Ibid.

<sup>13</sup> See resolution 59/209.

<sup>14</sup> See resolution 67/221.

transition support group, which met regularly before and after graduation. The group consisted of government representatives and multilateral and bilateral donors.

31. Samoa graduated on 1 January 2014. Samoa started to prepare its smooth transition strategy in 2012, and it has been implemented as an integral part of the Strategy for the Development of Samoa 2012–2016 and continued in the Strategy for 2016–2020. The Strategy was developed through a consultative process involving a broad range of stakeholders. In this context, the Government continued to strengthen the coordination of external resources, and a revised aid policy was launched. Samoa is also exploring the possibility of free trade arrangements with Asian trading partners.

32. Angola, scheduled to graduate in 2021, is considering the option of using the national development plan and the Angolan “Vision” document for the follow-up on the least developed country graduation process, instead of creating a new National Consultative Committee Graduation and Sustainable Development. In 2017, the Government of Angola prepared a 10-step least developed country graduation road map to prepare the smooth transition strategy. Owing to recent political changes, the Government has yet to implement the initial steps in the preparation of the transition strategy.

33. Vanuatu, which is scheduled to graduate in 2020, has recently established a national coordinating committee for the implementation of a smooth transition strategy. In 2018, the Committee, along with its development partners, plans to formulate strategies and policy interventions to address the impacts of least developed country graduation.

34. Several development partners have indicated interest in participating in consultative mechanisms. For example, bilateral development cooperation in Germany will take into account the challenges and opportunities arising from graduation, so that support will be tailored to the country context and aligned with its transition strategy.

35. Some development partners are providing trade-related technical assistance to graduating least developed countries in support of their smooth transition strategies. For example, New Zealand began discussing the potential impact of the graduation of Samoa at an early stage. Specific trade-related support measures included assistance during the accession of Samoa to the World Trade Organization (WTO), as well as customs policy and sector support. New Zealand also supported private sector development, a priority identified by the Government of Samoa. Similarly, the document entitled “European joint programming for Lao People’s Democratic Republic 2016–2020” is aligned with the country’s eighth national socioeconomic development plan, which is the main transition strategy to attain least developed country graduation.

36. The impact assessments for the countries that met the graduation criteria for the second time in 2018 provide insights into the challenges these countries will face once they move out of the category. The impact assessment is prepared for each eligible country during the period between the two triennial reviews. It analyses the effects of the withdrawal of international support measures granted specifically to least developed countries. Such measures are expected to be withdrawn or phased out after graduation and any applicable smooth transition period. The international support measures from which least developed countries benefit can be divided in three categories: (a) trade related; (b) development assistance; and (c) general support.<sup>15</sup>

<sup>15</sup> The general support is discussed in further detail in section IV.

37. The termination of the trade-related support measures from which least developed countries benefit constitutes the most direct loss from graduation. However, the impact of that loss also varies by country, depending on the main trading partner, export products, trade facilitation reforms carried out and other trade agreements in place. The loss of preferential market access requires careful consideration from the graduating country, to address and mitigate possible negative impacts, for instance by diversifying the export sector.

38. For example, in Sao Tome and Principe, cocoa beans account for up to 95 per cent of exports. The export of cocoa beans would not be affected by the withdrawal of least-developed-country-specific trade preferences owing to the zero most-favoured-nation tariff applied by the country's main trading partners. However, the loss of such preferences may make it more difficult for the country to add value to cocoa production and develop other potential export products, such as fish and seafood, which could face higher tariffs in potential markets. This impact would be mitigated in the European Union if Sao Tome and Principe were to join the European Union Generalized System of Preferences Plus scheme.<sup>16</sup>

39. Solomon Islands faces a more mixed picture regarding the loss of least-developed-country-specific trade benefits. Its main export products are logs and timber, palm oil, gold and fish. Graduation would have no impact on the main export, logs, most of which are exported to China, where logs do not face import tariffs. The main export challenge facing Solomon Islands in coming years is therefore domestic supply rather than market access. The country can expect to maintain duty-free, quota-free access for all products to Australia and New Zealand under the Pacific Agreement on Closer Economic Relations (PACER) Plus.<sup>17</sup> As Sao Tome and Principe did, Solomon Islands could maintain duty-free, quota-free market access to the European Union for all existing exports and most potential exports if it were to qualify for the Generalized System of Preferences Plus scheme, which requires the beneficiary country to implement a set of core international conventions on human and labour rights, sustainable development and good governance.

40. There are other trade-related measures available for least developed countries, such as the global intellectual property system, under the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement), which grants specific waivers for least developed countries under article 66.1. This waiver has since been extended to July 2021, and to 1 January 2033 in the case of pharmaceutical products, or until such a date as they cease to be a least developed country member, whichever date is earlier.<sup>18</sup> No specific smooth transition measures are in place in that regard. The effects of the obligation to implement the TRIPS Agreement depends on the specific situation of each country.

41. Analysis of the impact assessments of Bhutan, Kiribati, Nepal, Sao Tome and Principe, Solomon Islands and Timor-Leste also shows that even if the majority of these countries remain highly dependent on international cooperation, no significant changes are expected in the development assistance delivered by the development partners. For example, the biggest donors to Solomon Islands, namely Australia and

<sup>16</sup> United Nations, Committee for Development Policy, "Ex ante impact assessment of likely consequences of graduation of Sao Tome and Principe from the least developed country category", available from: <https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/CDP-PL-2018-5d.pdf>.

<sup>17</sup> United Nations, Committee for Development Policy, "Ex ante impact assessment of likely consequences of graduation of Solomon Islands from the least developed country category", available from: <https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/CDP-PL-2018-5e.pdf>.

<sup>18</sup> Decision of the Council for Trade-Related Aspects of Intellectual Property Rights (TRIPS) of the World Trade Organization IP/C/64 (2013); World Trade Organization General Council decision WT/L/971, and decision of the Council for TRIPS IP/C/73 (2015).

New Zealand, have stated that the country's graduation would not lead to a reduction of official development assistance.

## IV. Smooth transition measures

### A. Existing smooth transition measures

42. In its resolutions 59/209 and 67/221, the General Assembly calls on development partners to make efforts so that their bilateral and multilateral strategies and aid programmes support the national smooth transition strategy of the country in question for some time after graduation.

43. In the ministerial declaration of the Comprehensive High-level Midterm Review of the Implementation of the Istanbul Programme of Action for the Least Developed Countries for the Decade 2011–2020, participants emphasized that a successful transition must be based on a national smooth transition strategy elaborated by each graduated country. They also encouraged development and trading partners and the United Nations system to continue their support for the implementation of transition strategies for the least developed countries, as well as for smooth transitions for graduated countries, and to avoid any abrupt reductions in either official development assistance or technical assistance provided to the graduated countries. In addition, they invited development and trading partners to consider extending to the graduated country trade preferences previously made available for least developed countries, or reducing them in a phased manner in order to avoid adverse development impact on such countries, on a bilateral basis.

44. A limited number of development partners, including the United Nations system, provide such smooth transition measures to all graduating countries in the areas of access to funds, trade preferences and travel benefits.

45. The Technology Bank for the Least Developed Countries, which was established in 2016,<sup>19</sup> seeks to support least developed countries in strengthening their science, technology and innovation capacities and accessing appropriate technologies. The beneficiaries of the activities of the Technology Bank are all least developed countries and countries graduating from the least developed country category by decision of the General Assembly. Graduated countries will be able to benefit for a period of five years after the date of graduation.

46. Special and differential treatment for least developed countries provided in the WTO agreements would usually end with graduation. Graduating least developed countries have the possibility to negotiate special arrangements with Members in any area in which they require additional time. To benefit from special transition periods or technical support following graduation, least developed countries must put forward the requisite proposals for consideration by the WTO membership.

47. Some preference-granting members provide graduating least developed countries with extended periods for duty-free market access. For example, the European Union has applied, since 2012, a general smooth transition measure that extends the benefits under the Everything but Arms initiative for a transitional period of three years after graduation.

48. In December 2016, the Enhanced Integrated Framework reconfirmed, through a decision by its Board, that graduated countries continue to access Framework support for a period of five years following graduation. Thus far, the Framework has supported all graduated countries except Botswana. For example, Equatorial Guinea

<sup>19</sup> See A/71/363.

is at the start of the Framework process and is currently undertaking a Diagnostic Trade Integration Study.

49. As part of its Strategic Framework 2018-2021, the United Nations Capital Development Fund has articulated its new smooth transition support. The approach is demand-driven and time-bound and aims at ensuring that existing programmes can be completed. During the first three years after graduation, programmes will be funded as they were prior to graduation, with the possibility of extension for an additional two years, which would involve cost sharing.

50. The United Nations Framework Convention on Climate Change has launched a process to examine the support and flexibility provided to the least developed countries under the Convention and the Paris Agreement and on how the provisions can assist least developed countries in making a smooth transition from least developed country status, in the light of resolution 67/221.<sup>20</sup>

51. In 2011, the General Assembly, in its resolution 65/286, decided to extend the benefit of travel support to attend Assembly sessions, if requested, within existing resources, to graduated least developed countries for a period appropriate to the development situation of the country and for a maximum of three years. In addition, some United Nations agencies provide an extension of travel benefits after graduation, but this is usually subject to availability of funding, as in the case of International Telecommunication Union fellowships to attend meetings.

52. In its resolution 67/221, the General Assembly invites development partners to take into account the least developed country criteria for aid allocation, avoiding abrupt changes. The European Union has done this to some extent, but overall, the implementation of this provision has been limited.

## **B. United Nations system support towards the graduation process**

53. In its resolutions 68/224 and 69/231, the General Assembly requested all relevant organizations of the United Nations system, led by the Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, to extend the necessary support to least developed countries that aspired to graduate in the elaboration of their graduation and smooth transition strategy. United Nations system entities provided support to all graduating and graduated countries in the form of workshops for various countries to exchange experiences and targeted missions to specific countries. For instance, a joint mission to Angola was undertaken by several United Nations agencies in 2016 to support the preparation of a smooth transition strategy.

54. The Office of the High Representative, jointly with the Government of Bangladesh, organized a meeting on the theme "Achieving sustainable graduation", held in 2017 in Dhaka. Meeting participants assessed the potential impacts of graduation, necessary preparations to fully adapt to the changing circumstances arising from the erosion of least-developed-country-specific support and how to accelerate the momentum of graduation to maintain the development trajectory of the country with a view to achieving the Sustainable Development Goals by 2030. The outcome of the meeting is reflected in the co-chair's summary.<sup>21</sup>

55. The Economic and Social Commission for Asia and the Pacific co-organized, with the Government of Bhutan, a regional capacity-building workshop on the theme

<sup>20</sup> See FCCC/SBI/2017/19.

<sup>21</sup> Available from: [http://unohrrls.org/custom-content/uploads/2017/12/Co-chairs-summary\\_13Dec.pdf](http://unohrrls.org/custom-content/uploads/2017/12/Co-chairs-summary_13Dec.pdf).

"Formulating national policies and strategies in preparation for graduation from the least developed country category", held in Thimphu in November 2017.

56. At the end of 2017, the Office of the High Representative established an inter-agency task force on graduation and smooth transition with the objective of providing strengthened and coordinated United Nations system-wide support to the countries graduating from the least developed country category. The task force meets on a regular basis to provide concrete support in that area.

57. The secretariat of the Committee for Development Policy has developed a web-based platform, known as Gradjet, which provides information and analysis on graduation as well as tailored analysis and background information on activities that graduating governments might wish to undertake before, during and after graduation.

58. The Committee for Development Policy also monitors the development progress of countries that have graduated, in consultation with the governments of those countries. Monitoring occurs on a yearly basis for a period of three years after graduation becomes effective, and triennially thereafter, as a complement to two triennial reviews of the least developed country category.<sup>22</sup> However, the reports prepared by the graduated countries are not discussed by the international community.

59. The Nairobi Maafikiano of 2016 calls on UNCTAD to assist least developed countries to make progress towards and prepare for graduation from the least developed country category, including strategies for facilitating a smooth transition, a clear understanding of the post-graduation environment and challenges and of the need to build productive capacities and promote the structural transformation necessary for sustainable graduation.

60. Overall, smooth transition measures provided to all graduated countries are limited in scope, and there are clear indications that more support for smooth transition is needed to alleviate the concerns of countries recommended for graduation. As smooth transition support is mainly based on negotiations between the graduating country and its development partners, it depends on the negotiating skills of the graduating country.

61. Not all graduating and graduated countries have established a consultative mechanism and/or developed a smooth transition strategy. Furthermore, smooth transition measures are a continuation of international support measures for a limited period of time, but are not designed to address the possible new challenges of graduated countries. Thus, both more comprehensive smooth transition measures and additional support after graduation are needed.

## **V. General support that can be accessed after graduation**

### **A. Development and climate finance**

62. After graduation, countries will continue to have access to external support, but its forms and modalities may vary. Most development partners indicate that least developed country status is not a main criterion for official development assistance allocation, and thus such assistance to graduated countries is not expected to change because of graduation. However, some donors might switch from grants to concessional loans or increase interest rates for concessional loans.

63. Not all international organizations and financing institutions use the least developed country category and criteria for aid and credit allocation. For example,

<sup>22</sup> See resolution 67/221.

eligibility for allocations by the International Development Association of the World Bank' depend on a country's relative poverty, defined as GNI per capita below an established threshold and updated annually (\$1,165 in fiscal year 2018) and the absence of creditworthiness. International Development Association graduation becomes effective only every 3 years, in line with Association cycles, after an examination of the country-specific situation. The Association also supports several small island economies that are above the operational cut-off, owing to its small state exception. As of May 2018, all least developed countries, with the exception of Angola, were eligible to receive Association resources (including blend countries).<sup>23</sup> Of the five least developed countries graduated thus far, only two (Botswana and Equatorial Guinea) are also Association graduates.

64. Access to climate change finance is especially important for graduated countries, as they often remain highly vulnerable to the effects of climate change. While access to the Least Developed Countries Fund under the Global Environment Facility will be discontinued with graduation, access to the Green Climate Fund will continue. The Green Climate Fund Board uses minimum allocation floors for least developed countries, small island developing States and African States. At its 6th meeting, the Board decided to aim for a floor of 50 per cent of the adaptation allocation for these vulnerable countries. Thus, after graduation, small island developing States and/or African least developed countries will retain their access to the Green Climate Fund, which is expected to be the largest dedicated climate fund. For example, Samoa received a \$58 million grant from the Green Climate Fund for a flood management and control project in 2016.

## **B. Trade-related support**

65. After a country graduates from the least developed country category — and in many cases after a smooth transition period — it generally retains access to standard Generalized System of Preferences programmes in developed countries, in addition to other preferential terms resulting from bilateral or regional agreements, as described below. Furthermore, some key exports of least developed country (such as oil and minerals) face zero most-favoured-nation tariffs in major markets and will therefore not be affected by graduation.

66. With respect to access to the European Union market, following the transitional period of three years after graduation, the countries would no longer benefit from the Everything but Arms arrangement. They would come under the standard Generalized System of Preferences arrangement unless a more advantageous preferential market access arrangement were to be concluded. Graduated least developed countries that have ratified and effectively implement the 27 conventions relevant to the Generalized System of Preferences, which span the issues of human and labour rights, environmental protection and good governance, are eligible for the Generalized System of Preferences Plus, which provides more generous tariff preferences than under the standard System.<sup>24</sup> Graduated countries that are part of the African, Caribbean and Pacific Group of States and have signed economic partnership agreements with the European Union can maintain duty-free, quota-free market access.

67. Pacific islands previously had duty-free, quota-free access to Australia and New Zealand through the South Pacific Regional Trade and Economic Cooperation

<sup>23</sup> See the list, available from: <http://ida.worldbank.org/about/borrowing-countries>.

<sup>24</sup> Countries that are classified by the World Bank as upper-middle-income countries for three consecutive years are neither eligible for the Generalized System of Preferences nor the System Plus once they lose their least developed country status and Everything but Arms preferences.

Agreement, irrespective of their least developed country status. The Pacific Agreement on Closer Economic Relations (PACER) Plus, a reciprocal arrangement which has yet to enter into force, maintains this market access but obliges Pacific island members to reduce import tariffs over time and to liberalize incoming services trade and investment, in addition to Aid for Trade provisions.

68. Several African countries continue to benefit from preferential access to the United States market through the African Growth and Opportunity Act, which is not linked to least developed country status, including Angola, Cabo Verde and Sao Tome and Principe.

69. While such general market access is likely to provide some benefits for graduated countries, making use of more general preferential schemes (under the Generalized System of Preferences) relies greatly upon the ability of graduated least developed countries to compete with other developing countries, which is often constrained by their limited institutional, human and productive capacities.

70. It is therefore necessary to help graduating least developed countries adjust to the competitive international trading environment. Phasing out least developed country preferences in a gradual manner and extending the existing special and differential treatment provisions available to least developed countries for an appropriate period are some of the calls made by the international community to help the graduating least developed countries integrate into global trade.

71. As more and more least developed countries meet the criteria for graduation, graduation issues are likely to receive more attention in WTO. The least developed country group recently made a submission in which it seeks WTO members to permit graduated least developed countries to continue to provide export subsidies for industrial products under the Agreement on Subsidies and Countervailing Measures.<sup>25</sup> In addition, the trade ministers of least developed countries, in their declaration adopted during the WTO ministerial conference held in December in 2017, requested trading partners to take positive actions for least developed country graduation and identified some measures for consideration by WTO members.<sup>26</sup>

## VI. The experience of graduated countries

72. With respect to the graduation criteria, the five graduated countries<sup>27</sup> mostly continued their trajectories towards higher GNI per capita, higher human assets and lower economic vulnerability (see figure 2).<sup>28</sup>

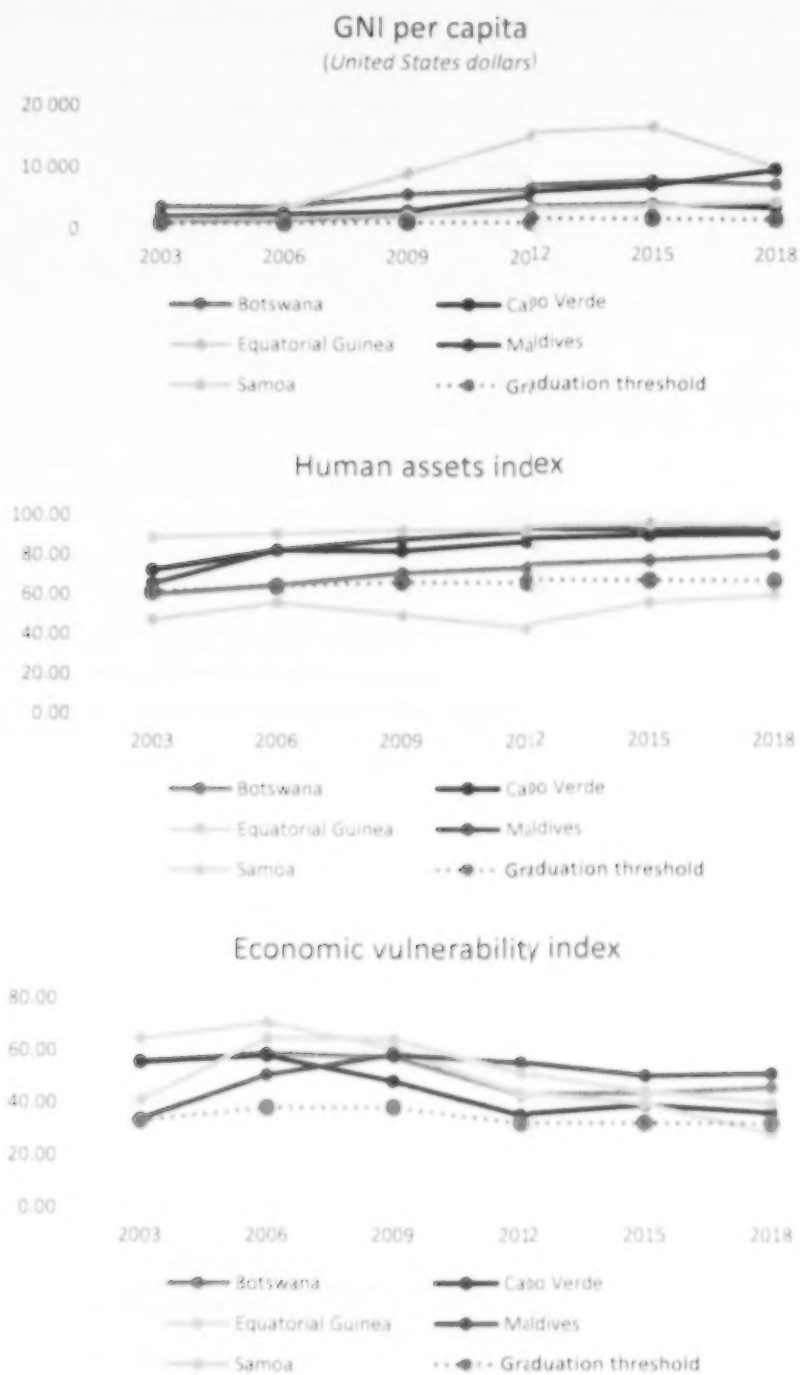
<sup>25</sup> World Trade Organization (WTO), "Communication from the Mission of the Central African Republic on behalf of the LDC group with regard to measures to allow graduated LDCs, with GNP below \$1000, benefits pursuant to annex VII(B) of the Agreement on Subsidies and Countervailing Measures" (WTO document WT/GC/W/742).

<sup>26</sup> WTO, "LDC Trade Ministers' Meeting, Buenos Aires, Argentina, 9 December 2017, LDC Ministerial Declaration" (WTO document WT/MIN(17)/40).

<sup>27</sup> As Equatorial Guinea graduated only in June 2017, there is no data available for that country for the period after graduation, and it is therefore not covered in the following analysis.

<sup>28</sup> See <https://www.un.org/development/desa/dpad/least-developed-country-category/ldc-data-retrieval.html>.

Figure 2  
Least developed country criteria in graduated countries, 2003–2018



Source: Committee for Development Policy website.

73. When Botswana graduated in 1994, there were no procedures in place towards support for graduation or smooth transition. Even with relatively high GNI per capita and human assets index values, Botswana remains vulnerable, with an economic vulnerability index above the graduation threshold, owing to its small population, remoteness and export concentration. The share of exports in gross domestic product (GDP) increased from 48 per cent in 1994 to 61 per cent in 1997 and remained close to or above 50 per cent until 2008. Official development assistance to Botswana stayed relatively flat after graduation and fluctuated heavily after 2000.

74. Cabo Verde, which graduated in 2007, also continued its development progress. Its GNI per capita continued to increase and its high human assets index score is close to the maximum, while its economic vulnerability index score remains still slightly above the graduation threshold in 2018, mainly driven by the small population. Official development assistance to Cabo Verde increased significantly between 2007 and 2010, followed by a decline, from 2011 to 2016, to pre-2007 levels. The share of exports in GDP declined from 45 per cent in 2006 to 31 per cent in 2009, but thereafter increased to approximately 40 per cent from 2012 to 2014. The share of foreign direct investment in GDP began to increase after 1994, but fluctuated widely. The stock of external debt of Cabo Verde started to increase in 2009 (44 per cent) and reached 100 per cent of GNI in 2015. Cabo Verde has been classified as being at high risk of debt distress by the IMF and World Bank. Thus, Cabo Verde is currently facing some difficulties related to access to financing for development.

75. The Committee for Development Policy first recommended graduation of Maldives in 2000, and the General Assembly took note of its graduation in 2004. In 2006 the Assembly decided to defer its graduation to 2011, owing to a tsunami. Afterwards, GNI per capita continued to increase after graduation, reaching more than seven times the graduation threshold in 2018. However, the economic vulnerability index remained well above the graduation threshold, reflecting the structural challenges of the country's small size, remoteness and high exposure to climate change. Overall, development progress in Maldives seems not to have been affected by graduation.

76. Official development assistance to Maldives remained in the same range as before graduation and even slightly increased since 2013. However, its composition changed, with a higher share from donors not members of the Development Assistance Committee of the Organization for Economic Cooperation and Development, including China, India and Saudi Arabia. The share of exports in GDP remained stable, at approximately 86–90 per cent from 2012 to 2014 (when access to Everything but Arms ended) and afterwards declined to approximately 80 per cent. At the end of 2017, Maldives signed a free trade agreement with China. The share of foreign direct investment in GDP in Maldives spiked in 2011 and remained above the average before graduation thereafter. Thus, Maldives access to financing for development seems not to have been significantly affected by graduation. However, the country is rated as being at high risk of debt distress.

77. Samoa graduated on 1 January 2014, after the General Assembly decided to postpone its graduation, which was originally foreseen for December 2010, owing to a tsunami that hit the country in 2009. Its GNI per capita and human assets index values continued to increase after graduation. The economic vulnerability index score declined slightly after graduation, but remains well above the graduation threshold.

78. Official development assistance to Samoa increased significantly in 2010 and remained at a higher level after graduation. The share of exports in GDP continued to remain stable after graduation, but at a low level of below 30 per cent. This might be partially due to the fact that several key export products, such as coconut oil, can be exported to the European Union at zero per cent tariff rates under the Generalized

System of Preferences. However, the share of debt servicing in total exports increased from 6 per cent in 2013 to 9.4 per cent in 2015, and remained high, implying a high risk of debt distress.

79. From the experiences of the graduated countries, it can be concluded that their development progress has continued, mainly with respect to GNI per capita and the human assets index. However, they remain highly vulnerable, as indicated by their economic vulnerability index scores above the graduation threshold. While the graduated countries continued to have access to external support, including official development assistance, there have been changes in modalities. For example, increasing loans from multilateral financial institutions and emerging bilateral donors have the potential to increase the level of external debt. The three small island developing States in the group are rated as being at high risk of debt distress.

80. While the development progress of graduated countries has continued, supported by development partners, there remains uncertainty with respect to the effects of graduation, indicating that more country-specific analysis and support is needed.

## VII. Dedicated support for graduation

81. As graduation from the least developed country category marks the achievement of an important milestone, the graduated countries should not be penalized for their progress. At the regional level, the Economic and Social Commission for Asia and the Pacific recognized, at its seventy-fourth session, that the graduation process of least developed countries should be coupled with an appropriate package of incentives and support measures in order not to jeopardize their development progress. Therefore, specific support should be provided by the international community, in line with the priorities of the graduating country. This may include technical assistance and policy advice to support the implementation of the smooth transition strategies to ensure continued economic diversification and structural transformation, to address post-graduation challenges and to support progress towards achieving the Sustainable Development Goals. These new and dedicated support measures would be additional and complementary to the smooth transition measures. Such support would send a strong signal to least developed countries that graduation is an accomplishment and the international community stands ready to support the transition to the next level of development.

82. While specific support should be tailored to the needs of the graduating country, the following measures could be components of a dedicated support package:

(a) More in-depth analysis of the potential impacts of graduation and identification of additional support is required to address the challenges of graduation. The preparation of early impact assessments soon after a country is found eligible for graduation for the first time (instead of just before the subsequent triennial review by the Committee for Development Policy) could be a first step in this respect, but additional analysis might be needed to address the challenges of transitioning to the next stage of development;

(b) Capacity-building can enhance access to new sources of financing, including blended financing of domestic and international resources. There is evidence that least developed countries and graduated countries face challenges in accessing specific funds available to them, for example climate change finance. This could include centralized information on available sources of concessional finance and dedicated support for the preparation of bankable projects in priority sectors.

Various funding sources, including the private sector and funds allocated by countries under South-South and triangular cooperation, could be covered;

(c) As the availability of grants is expected to decline for graduated countries, there is a need to increase access to other means of financing, including private finance, green bond financing and GDP-indexed bonds. Credit ratings and risk management measures, including through the Multilateral Investment Guarantee Agency, could be helpful in this respect. The awareness of credit rating and other relevant agencies about countries' graduation from the least developed countries category must be raised, in order to reflect the progress achieved. In addition, the debt sustainability of graduated countries must be addressed, for example through the use of debt swaps, as several graduated countries are at high risk of debt distress;

(d) Graduating countries also need specific support to reap the potential benefits of trade. This could include capacity-building for exporters to navigate different types of market access and for government officials to negotiate trade agreements to enable countries to tap into new markets. In addition, legal and technical assistance could be provided to access non-least-developed-country-specific trade preferences, such as the European Union's Generalized System of Preferences Plus;

(e) Bringing together various stakeholders, including development and trading partners and the private sector, would provide a platform for countries about to graduate to showcase progress and investment opportunities, for example an improved business environment and increased institutional capacity. That platform could be used to attract various sources of finance, including foreign direct investment;

(f) Support to graduating countries in costing, funding and monitoring the implementation of the Sustainable Development Goals, covering all 17 Goals, should be provided, with particular attention to social development issues that have a huge impact on a sustainable graduation;

(g) Enhanced technical assistance to least developed countries to build and strengthen their intellectual property rights systems would enable them to comply with obligations related to intellectual property after graduation. The implementation of the intellectual property regime should be an integral part of the national smooth transition strategy, taking into account national circumstances, and assistance in this regard should be extended to the graduating country at an early stage.

## VIII. Conclusions

83. Never before have so many countries been identified for graduation at a single triennial review of the Committee for Development Policy as in 2018. The increased number of countries crossing the graduation thresholds reflects the considerable socioeconomic progress achieved. However, to meet the target set out in the Istanbul Programme of Action, graduation must further accelerate, and continued and revitalized efforts will therefore be required. Least developed countries require continued dedicated international support, as agreed in the Programme of Action, to accelerate the implementation of all its priority areas and achieve the Sustainable Development Goals. In addition to increasing official development assistance, the use of trade preferences should be enhanced through the reduction of non-tariff barriers, including more flexible rules of origin.

84. Graduation from the least developed country category is not a mechanical process. The ex ante impact assessment prepared by the Department of Economic and Social Affairs, the vulnerability profile prepared by UNCTAD and the views of the

country are all taken into account when the Committee for Development Policy considers whether to recommend the country for graduation. Countries recommended for graduation should build on the progress achieved, using new opportunities from transitioning to the next phase of development.

85. However, graduated countries continue to face various challenges due to vulnerabilities to various crisis and shocks. It is important to ensure that exiting from the least developed country category does not disrupt the development of the graduating country. To ensure sustainable and irreversible graduation, particular attention should be given to the smooth transition of countries graduating from least developed country status, consistent with their transition strategy and taking into account each country's particular development situation. Development partners have a key role to play in providing capacity-building to support graduating countries' efforts to adjust to post-graduation realities.

86. While the provisions contained in General Assembly resolution 67/221 have offered a solid basis for a more predictable graduation and smooth transition, there has not been significant progress in its implementation since 2015.<sup>29</sup> Against the increase in numbers of least developed countries reaching the graduation thresholds, and taking into account their continued vulnerabilities, more smooth transition measures must be provided in a predictable manner.

87. Graduation and smooth transition strategies should be integrated into national development and donors' aid strategies. The cycle of preparation of such strategies must be taken into account at an early stage in the graduation process. Countries that are found eligible for graduation are recommended to establish a consultative mechanism to prepare their transition strategy as early as possible, engaging all relevant donors and stakeholders. The strategy should be sufficiently flexible to adjust to the new challenges that may arise during the process, as well as to ensure policy coherence. It should be based on a careful analysis of how the loss of least-developed-country-specific international support measures will have an impact on the country's economy and pave the way for sustainable graduation.

88. Development partners should apply the least developed country criteria, namely, GNI per capita, the human assets index and the economic vulnerability index, to their process of aid allocation, including after graduation. Doing so would constitute built-in smooth transitions and ensure that the allocation of official development assistance is more stable and predictable.

89. United Nations entities that have committed to allocating a certain percentage of their resources to least developed countries must consider the extension of such support to graduated countries and gradual phasing-out in a predictable manner for a fixed time period and applied in accordance with the specific development situation of each graduating country. The United Nations development system must also extend the necessary support to a graduating country in the preparation of its smooth transition strategy, as well as during its implementation and follow-up.

90. Efforts should be made to ensure that the recent General Assembly resolution on the repositioning of the United Nations development system further supports the smooth transition process, by ensuring the following: that the revitalized United Nations Development Assistance Framework fully takes this into account; that the resident coordinator, in their reinvigorated role, plays the facilitator part intended by Assembly resolutions; and that the United Nations country team's composition and efforts are oriented towards supporting the graduation process.

<sup>29</sup> In 2015, the most recent report of the Secretary-General on implementation, effectiveness and added value of smooth transition measures (A/70/292) was prepared.

91. In order to enhance the effectiveness of smooth transition measures, the monitoring of and follow-up to these measures must be further strengthened. Member States may consider undertaking intergovernmental follow-up and monitoring of the implementation of smooth transition strategies for graduated countries under the auspices of the Economic and Social Council for a certain period of time after graduation.

92. Integrated, institutionalized and predictable financial and technical assistance for graduated countries should compensate for the phasing out of least-developed-country-specific support. This could include support for increasing domestic resource mobilization, the strengthening of domestic capital markets, the diversifying of exports and the building of capacity to enhance resilience to external shocks and natural disasters.

93. The inter-agency task force on graduation and the Committee for Development Policy and other actors should continue to work on identifying dedicated support to address the specific challenges of transitioning from one phase of development towards the next through graduation.

94. Finally, the strengthening of support towards graduation and beyond must be reflected in the next programme of action for the least developed countries in order to further accelerate progress and ensure that all such countries take dedicated steps towards approaching the graduation criteria.